

GROUNDWATER LEASE

This Lease is dated as of _____, 2007, between _____ (“Lessor” whether one or more), whose address _____ and Brazos Valley Water Alliance, L.P., a Texas limited partnership (“Lessee”), P.O. Box 3927, Bryan, Texas 77805.

1. **Description.** In consideration of a royalty and a net profits interest as described in this Lease and covenant to market water, Lessor hereby leases the following land (the “Land”) to Lessee, its successors and assigns:

See Exhibit “A” Attached Hereto And Made A Part Hereof

in _____ County, Texas containing _____ acres, whether more or less, and which acreage figure may be relied upon by Lessee in calculating royalty and net profits hereunder. Notwithstanding this specific description, Lessor intends to include within this Lease all land owned or claimed by Lessor up to the boundaries of any abutting landowner.

2. **Grant.** Lessor leases the Land to Lessee to exclusively explore, conduct geological, hydrogeological and geophysical surveys, drill, operate, produce, store, treat and own all the water that is under said Land included within Lessee’s AMI (Area of Mutual Interest) in the Carrizo-Wilcox aquifer (the “Water), and lay pipelines, build roads, tanks, pumping stations, power lines, telephone lines and all other structures that are useful to Lessee’s operations with rights of ingress and egress, all to produce, save, measure, treat, process, store, transport, own and sell the Water. Anything herein to the contrary notwithstanding, no well for the purposes provided for herein shall be less than 1000 feet in depth. Rights and title to the Water are vested exclusively and absolutely in Lessee, as well as any and all permits, licenses, historical use rights or governmental approvals that now or hereafter pertain to such Water production and use. Lessor assigns all of the following to Lessee during the term of this Lease, whether they now exist or are created during this Lease: all permits, applications for permits, and historical production and withdrawal rights (except water used by Lessor as permitted under Water Excluded from Royalty below). Lessee, upon its election and upon payment to Lessor of reasonable consideration may designate up to two (2) acres of the Land as a well site, in the form of a square surrounding and centered on a water well pursuant to this Lease during the term of this Lease. Lessee may construct a fence around each well or other surface facility located on the Land. Lessee may drill, develop and maximize, to the extent permitted by law, the maximum quantity of well sites, and the maximum allowable production from each well.

3. **Term.** Subject to the other provisions of this Lease, this Lease is for a term of ten (10) years from this date (the “primary term”) and as long thereafter as either payments are made pursuant to Paragraph 5 below or Water is produced from the Land or land with which the Land is pooled. In this Lease “produced” or “production” mean production of any quantity so that a royalty payment is payable to Lessor and/or any activity or circumstance that generates Net Profits (as defined below).

4. **Royalty.** Lessee will pay Lessor ten percent (10%) of the total amount Lessee receives from the sale of Water from the Land (subject to Pooling below) computed at the wellhead (the “royalty”); however, as provided below in Water Excluded from Royalty, Lessee will not pay royalty on any Water used by Lessor and/or Lessee in field operations. Lessee will pay the first royalty payment within ninety (90) days after date of sale. Thereafter Lessee will pay said royalty on or before the end of each month with respect to amounts received in the preceding month.

5. **Net Profits.** Beginning when Lessee first has Net Profits and continuing through the term of this Lease, Lessee will pay Lessor monthly on or before the last day of each month during the term of this Lease Lessor’s pro rata share (based upon the ratio of the acreage of the Land to the total acreage under lease to Lessee in the AMI) of fifty-one percent (51%) of its Net Profits, if any, during the prior month. “Net Profits” for purpose of this Lease shall be defined as total revenues from the sale of groundwater (including revenue for reservation of rights relating to future sales and excluding capital contributions and loan proceeds) minus all Lessee’s expenses, overhead, debt service, taxes, royalty payments, and a reasonable allowance as determined by Lessee in good faith for contingencies and working capital since inception. Lessee will deliver to Lessor a monthly Net Profits calculation during the term of this Lease. The Area of Mutual Interest (“AMI”) is any land believed to be containing the stratigraphic horizon known as the Simsboro member of the Carrizo-Wilcox Aquifer located in Burleson, Milam, Robertson, Brazos, Lee and Leon Counties, Texas and such area for the purposes of this lease and AMI not to exceed 1,200,000 acres. Lessee will use reasonable efforts to market the water that is under Lease to it in the AMI during the primary term. Lessee covenants to Lessor that in the event Net Profits on a rolling twelve (12) month basis are, subject to Force Majeure and other events that are beyond Lessee’s control, less than 55% of the total revenues of Lessee from the sale of ground water as defined in this Paragraph 5, then in such event Lessor shall receive as an alternate payment a combined total royalty payment including the royalty described in Paragraph 4 above of thirty (30%) percent on the sale of ground water by Lessee for that period of time Net Profits are less than 55% of the total revenues of Lessee from the sale of ground water on a rolling twelve month basis. For purposes hereof “a rolling twelve month basis” shall mean the prior twelve months provided that no calculation shall be made hereunder until Lessee has been in operation twelve months.

6. **Diligence.** If after the expiration of the primary term herein, production of Water ceases for any reason, this Lease will not terminate if Lessee commences operations for drilling or reworking an existing or new well within twelve months thereafter on this land or any land pooled therewith. If at the end of the primary term Water is not being produced from the Land, or land with which the Land is pooled, but Lessee is conducting any drilling or reworking operations, then this Lease will remain in force as long as operations on that well or for drilling or reworking any well continue with no interruption lasting more than twelve (12) months. If those operations result in Water production, this Lease remains in force so long as Water is produced from the Land, or land with which the Land is pooled.

7. **Warranty of Title; Quiet Enjoyment; Proportionate Reduction.** Lessor warrants and agrees to defend title to the Land and the Water rights therein. Lessor covenants that Lessee shall peaceably and quietly hold and enjoy the Land without hindrance from Lessor or any party claiming by, through or under Lessor. If Lessor’s interest in the Water is less than the entire undivided fee simple estate or if due to statutory limitation this Lease covers an interest that is less than the entire and undivided fee simple estate, then the royalty and net profits payments in this Lease shall be paid to Lessor in the proportion which Lessor’s actual interest bears to the entire fee simple estate. All royalty and net profits interests covered by this Lease (whether or not owned by Lessor) shall be paid out of the royalty and net profits provided for in this Lease. If any one or more of the parties named herein as Lessor fails to sign this Lease, it will nevertheless be binding on all parties who do sign it. Lessee at its option may discharge any tax lien on Lessor’s interest in the Land (unless such tax lien is being appropriately contested in good faith by Lessor) and, if Lessee does so, Lessee shall have the right to apply royalty and net profits payments to reimburse that payment.

8. **Pooling.** Lessee shall pool (combine) all the Land or interests covered by this Lease with all of Lessee’s other lands, leases, and interests within the AMI from time to time. Lessee is hereby granted the right, and without the need of Lessor’s further consent or joinder, to pool or unitize this lease, these lands, and all associated rights, benefits or interests, associated with, covered by, or created by this lease, with any other land, lease or leases. Operations or production from any part of the pooled land shall be deemed as operations or production conducted on the Land. For the purpose of computing Lessor’s royalty and net profits interest in this Lease, Lessor shall receive on production from all the pooled lands, such portion of the royalty and net profits as the number of surface acres of the Land bears to the total number of surface acres in all the pooled lands. Drilling a well on any part of the pooled land constitutes drilling a well on the Land. The word “operations” in this Lease means any of these: drilling, testing, completing, recharging, reworking, recompleting, deepening, plugging back or repairing of a water well in search for or in an effort to produce Water, as well as production of Water. The size and configuration of the pooled land within the AMI will be revised, increased, decreased in size and changed in configuration by Lessee as the land under lease to Lessee in the AMI changes and such changes will occur without the joinder of Lessor. Any change in ownership under this lease or lands pooled therewith, shall be calculated at the end of such month that said change occurs and effective the 1st day of the following month for the purposes of payments calculated hereunder.

9. **Water Excluded from Royalty.** Lessor may construct or continue to operate, water well(s) to withdraw Water solely for Lessor’s domestic, agricultural or livestock watering purposes, but not for any industrial/commercial purpose nor for sale to third

parties. Lessor's free use must not challenge Lessee's title to the Water or violate any sanitary control easement. Lessee shall have the right, free from the payment of royalty, to use Water from its wells in connection with its field operations and such Water shall be metered separately.

10. **Surface Use.** No water well shall be drilled nearer than one hundred fifty feet (150') from any house or barn now on the Land without Lessor's written consent. If requested by Lessor, all pipelines will be buried at least 30 inches from the top of the pipe below the ground. Lessee must pay for any actual damages to roads, fences, improvements, trees and/or growing crops it causes, and must fill and level all pits, mounds, and restore the surface of the Land to as near its original condition as is reasonably practicable within a reasonable period of time after ceasing operations.

11. **Contesting Taxes and Fees.** Lessee may (but is not required to) prosecute any administrative proceedings relating to the Land and the rights conveyed herein including, but not limited to, (i) contesting any taxes or fees assessed or levied upon the Land pursuant to water withdrawal rights, or (ii) protesting, defending or preserving the right to withdraw Water. If required by law or administrative practice, Lessee may take any administrative action in the name of Lessor.

12. **Force Majeure.** If operations are delayed or interrupted by events such as storm, flood, other Acts of God, fire, war, riot, strike, differences with workers, failure of transport, or some government action, the time of such interruption shall not be counted against Lessee.

13. **Sanitary Control Easement.** Lessee has the right to designate a sanitary control easement consisting of a circular tract of land centered on each completed water well having a radius of 150 feet from the well or such reasonable size and configuration necessary to comply with any governmental rules relating to water produced for sale to a potable water system or utility. Lessor will not interfere with any sanitary control easement nor impair the quality of the Water from its natural condition. The following items or activities are prohibited within a sanitary control easement: any feed lot or poultry facility, septic or sewage-related tank, apparatus, or other facility or infrastructure regulated by any governmental authority. Upon request by Lessee, Lessor will execute a Sanitary Control Easement as described in Title 30 Texas Administrative Code, Section 290.47, as amended, (or any similar or successor regulation) which will provide for a sanitary control easement around each well site.

14. **Condemnation; Insurance Proceeds.** Lessor assigns to Lessee an interest in and to any condemnation awards or insurance proceeds which would otherwise be payable to Lessor to the extent they are for the water rights conveyed by this Lease or are for improvements, equipment or property installed by Lessee on or within the surface or subsurface interests covered by this Lease.

15. **Miscellaneous.** All notices given pursuant to this Lease shall be in writing mailed by first class U.S. mail postage prepaid, certified, return receipt requested, addressed to the addresses above. A party may change its address for notice by giving notice to the other. This Lease may not be amended except in a writing signed by Lessor and Lessee. No third party shall be deemed a third party beneficiary hereof. Interpretation and construction of this Lease shall be governed by the laws of the State of Texas. This Lease constitutes the entire agreement between Lessor and Lessee and supersedes all oral statements and prior understandings relating hereto. Except as set forth in this Lease, no representations, warranties, or agreements have been made by Lessor or Lessee to the other with respect to this Lease or the obligations of Lessor or Lessee. If any part of this Lease is illegal, invalid or unenforceable under present or future laws, then the remainder of this Lease shall not be affected and in lieu of such part there shall be added a clause or provision as similar in terms to such illegal, invalid, or unenforceable part as may be possible and be legal, valid, and enforceable, and any affected Land shall be severed herefrom if necessary to enforce the remainder of this Lease.

16. **Audits.** Once per calendar year during this Lease (at Lessee's expense), Lessee shall engage, an independent reputable accounting firm to audit Lessee's books and records relating to this Lease and all other leases of land in the AMI. Lessee will make the results of each audit available to Lessor and will promptly correct any errors revealed in such audits.

17. **Memorandum of Lease; Future Assurances.** Lessor and Lessee agree to execute a Memorandum of Lease to be recorded in each county where the Land is located. Lessor and Lessee shall execute and deliver to each other any document that Lessee determines to be necessary or useful to fully carry out the transactions covered by this Lease. Lessee may file a copy of this Lease, the Memorandum or any document referred to in this paragraph, in any public office or in compliance with any governmental regulations, transfer program rules or recording requirements.

18. **Information from Lessor.** As a condition for the payment of proceeds to Lessor, Lessee shall be entitled to receive a signed instrument or division order containing the fractional or decimal interest in production claimed by Lessor, a warranty of title as to such interest, an indemnification for payments made for such interest, the taxpayer identification number of Lessor and any other information needed by Lessee to make payments hereunder. If Lessor's interest in the Land is subject to a deed of trust, mortgage or other lien, Lessor shall provide Lessee with an instrument that subordinates such lien to the terms of this Lease.

19. **Counterpart.** This lease may be executed in counterparts, each of which shall be considered an original for all purposes.

20. **Assignments.** The rights and estate of any party hereto may be assigned from time to time in whole or in part. No change or division in the ownership of said land or of the royalties, or other monies, or the right to receive the same, however effected, shall be binding upon the then record owner of this lease until thirty (30) days after there has been furnished to such record owner at his or its principal place of business by lessor, or lessor's heirs, successors or assigns, notice of such change or division, supported by either originals or duly certified copies of the instruments, which evidence such change or division, or other documents as shall be necessary in the opinion of such record owner to establish the validity of such change or division.

LESSOR:

LESSEE:
BRAZOS VALLEY WATER ALLIANCE, L.P., by Brazos Valley Water Works, L.L.C., its general partner

By: _____

Tax ID/SSN: _____

Name and Title: Lance W. Lester, President

Tax ID/SSN: _____

THE STATE OF TEXAS §

COUNTY OF _____ §

This instrument was acknowledged before me on _____, 2006, by _____.

Notary Public in and for the State of Texas

THE STATE OF TEXAS §

COUNTY OF BRAZOS §

This instrument was acknowledged before me on _____, 2006, by Lance W. Lester, in his capacity as President of Brazos Valley Water Works, L.L.C., the general partner of Brazos Valley Water Alliance, L.P., a Texas limited Partnership on behalf of said partnership.

Notary Public in and for the State of Texas